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What Trump's re-election means for portfolios, Fed rate cuts

By Rob Burgess

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Last week saw two monumental shifts that will have lasting effects on the markets for quite some time.

One was something of a shock, at least at how decisive it was, and the other was widely expected.

Tuesday was Election Day and voters decided to send Republican President-elect Donald Trump back to the White House and put his party back in control of the U.S. Senate.

On Thursday, Federal Reserve Chair Jerome Powell announced yet another drop in interest rates, the second drop by the Fed after its half-point interest rate decrease in September.

How the former will affect the latter, and how both will change client portfolios going forward have been on the minds of advisors these past few days.

Fed reaction to the Trump election

Timothy D. Calkins, co-chief investment officer at Nottingham Advisors Asset Management in Buffalo, New York, said the Fed's quarter-point rate cut was widely expected and not a surprise to him or the markets. However, the election outcome, not just the Trump victory, but the red wave, was a bit of a surprise to the markets, illustrated by the significant moves in yield levels and equity valuations.

In a press conference Thursday after the Federal Open Market Committee (FOMC) meeting, Powell was asked by a reporter, "Some of the president-elect's advisors have suggested that you should resign. If he asked you to leave, would you go?"

Powell simply replied, "No."

"Powell made it clear that he was not intimidated by the return of President Trump, and will not voluntarily leave his post," Calkins said. "The Federal Reserve needs to remain independent and free from political influence if our country wants to continue to benefit from the U.S. dollar serving as the free world's reserve currency."

Chris Pape, founder of Pape Financial in Bentonville, Arkansas, said Powell's defiance of Trump also meant an "extension of this message is that the Fed will continue to pursue its dual mandate based on the data, without regard to

political influence."

"This would seem to suggest continued cuts to move toward a neutral interest rate, but being prepared to pause if the data suggests inflation is rearing up," he said. "This should lead to a less acrimonious relationship between Powell and Trump, as long as Trump can accept that the Fed won't consult him."

Among the topics Financial Planning covered recently when 213 wealth management professionals were polled for its Fall 2024 Election Survey was, "Do you think the Federal Reserve takes political considerations into account when setting monetary policy?"

In response, 75% of those polled said yes. Within that number, 8% said always, 15% said most of the time and 52% said some of the time. Another 21% said no, never. And the remaining 4% didn't know or had no opinion.

Calkins said he expects the Fed to cut rates another quarter point in December, "and then take the opportunity to reset expectations for 2025."

"Four more quarter-point cuts were expected next year, before the election results," he said. "The Fed may want to walk this back a bit, or at least reinforce that they are truly data dependent and not on a pre-ordained course."

The decision to drop interest rates by another quarter point was not entirely unexpected, given ongoing economic signals and recent Fed commentary, said Jason Gilbert, founder and managing partner of RGA Investment Advisors in Great Neck, New York.

"We anticipate that the Federal Reserve, driven by economic data rather than political shifts, will take a cautious approach in further rate decisions, closely monitoring inflation and employment metrics," he said.

Stay the course or shift allocations?

Pape said the big surprise this week was the decisive Trump victory and the quick certainty this provided markets. However, he said investors "should be careful about trying to favor certain sectors based on perceived policy changes."

Andrew Mescon, CEO of Ballast Rock Private Wealth in Charleston, South Carolina, said his firm's general view is that investment decisions should not be based solely on election outcomes.

"It's way too early to determine the impact of any new potential fiscal policy developments that may or may not occur over the next two to four years," he said.

Gilbert said Trump's re-election does bring a heightened level of unpredictability, particularly regarding fiscal policies, trade dynamics and economic regulation.

"Clients have indeed voiced concerns and asked whether these developments warrant portfolio adjustments," he said. "Our practice, built on a foundation of fiduciary responsibility and long-term financial stewardship, continues to emphasize a disciplined approach."

Gilbert said they remind clients that, despite the inevitable market turbulence following significant political or economic events, a diversified and well-balanced portfolio remains the best defense.

"The focus stays on meeting long-term objectives while staying nimble enough to adjust to evolving conditions," he said. "Meanwhile, we remain proactive in evaluating sectors that may be impacted, including healthcare, technology and international markets as part of our strategic planning to position client portfolios effectively."

Stuart Schiffman, founder of Compound Wealth Advisors in San Diego, said in his experience, most advisors would simply steer the same course having taken into account historic volatility and returns to determine asset allocation for their clients. Not him, though.

"Not now," he said. "I think we are in uncharted waters."

In the past, Schiffman said he steered away from alternative assets, but is now reviewing them to add to client portfolios. These assets include gold, bitcoin, private REITs, private equity and private credit.

"I am going to be making incremental shifts in the portfolios toward alternative assets in the coming weeks before the new administration takes the helm," he said. "Markets do not like uncertainty. While much of what Trump says may be bluster, we can only assume he will bring the same daily commentary and sideshows he did in his first administration."

Calkins said the best values within fixed income are "off the beaten path."

"Corporate bonds are historically pricey, but asset-backed and securitized bonds look attractive," he said.

Large-cap growth stocks have been a great place to be, Calkins said, but going forward, particularly post-election, small- and mid-cap U.S. stocks will have the wind at their back.

"Positioning within the space is still key," he said. "Profitability and quality are important when moving down in size. Private market investments are attractive right now. Especially, if the private exposure is being funded by profits from large-cap growth/momentum names that appear expensive."

Pape said with large-cap valuations already stretched, interest rates are likely to continue a downward trajectory.

"A strong domestic economy, and the potential for decreased scrutiny of M&A activity, the backdrop is positive for small-cap outperformance," he said.

Overall, the environment for equities should be positive, and Pape recommends that clients stay fully invested.

"There is potential for profit-taking early next year, so I might be a little cautious about deploying new money the rest of this year," he said.